

# HOUSE BILL REPORT

## HB 1510

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**As Reported by House Committee On:**  
Finance

**Title:** An act relating to the property taxation of nonprofit entities.

**Brief Description:** Modifying the property taxation of nonprofit entities.

**Sponsors:** Representatives Morris, Quall, B. Sullivan and Chase.

**Brief History:**

**Committee Activity:**

Finance: 2/16/05, 3/7/05 [DPS].

**Brief Summary of Substitute Bill**

- Increases the number of days that some nonprofit exempt property may be used for non-exempt purposes without losing a property tax exemption.
- Broadens the allowable non-exempt activities that may be conducted on some nonprofit exempt properties without losing exemption.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Conway, Ericksen, Hasegawa and Santos.

**Staff:** Bob Longman (786-7139).

**Background:**

All property in this state is subject to the property tax each year based on the property's value, unless a specific exemption is provided by law.

Several property tax exemptions exist for nonprofit organizations. Examples of nonprofit property tax exemptions are: character building, benevolent, protective or rehabilitative social service organizations providing services for all ages; churches and church camps; youth character-building organizations; war veterans organizations; national and international relief organizations; federal guaranteed student loan organizations; blood, bone and tissue banks; public assembly halls and meeting places; medical research or training facilities; art,

scientific, and historical collections; sheltered workshops; fair associations; humane societies; water distribution property; schools and colleges; radio/television rebroadcast facilities; fire company property; day-care centers; free public libraries; orphanages; nursing homes; hospitals; outpatient dialysis facilities; homes for the aging; performing arts properties; and homeless shelters.

Property that is exempt from tax must be used exclusively for the actual operation of the activity for which exemption was granted, with a few exceptions. Most nonprofit property may be used for fund-raising activities without jeopardizing its exempt status if the fund-raising activities are consistent with the purposes for which the exemption was granted. Public assembly halls, meeting places, and war veterans' organization property may be used for fund-raising activities by any nonprofit organization. Except for public assembly halls, public meeting places, and war veterans' organizations, the property may be loaned or rented only if, (a) the rent received for the use of the property is reasonable and does not exceed maintenance and operation expenses, and (b) the organization renting the property would be exempt from tax if they owned the property. For public assembly halls, the exempt property may be used for pecuniary gain or to promote business activities for up to seven days each year and also can be used for dance lessons, art classes, or music lessons in counties under 10,000 in population. The property of veterans associations may be used for pecuniary gain or to promote business activities for three days or less each year.

If nonprofit exempt property is no longer used for the purposes for which the exemption is granted, back taxes are due. For an institution of higher education, taxes which would have been paid during the previous seven years must be repaid. For all other nonprofit organizations, taxes which would have paid during the previous three years must be repaid. Interest is due on repayments of back taxes.

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### **Summary of Substitute Bill:**

The number of days a public assembly hall or meeting place may loan or rent its property for private use is increased from 7 to 15 days per year. Nonprofit nonsectarian character-building, benevolent, protective, and rehabilitative social service organizations in counties with less than 20,000 population may loan or rent their property for private business use for up to 15 days per year. These organizations may also loan or rent their property to a nonprofit community group or other nonprofit organization that might not qualify for exemption, for up to 15 days per year, if the property is used for the general public good. For all of these loans or rentals of property, any rents received must be used for capital improvements to the exempt property, maintenance and operation of the exempt property, or for exempt purposes. The number of days a veterans' organization may loan or rent its property for private use is increased from 3 to 15 days per year.

If nonprofit exempt property is transferred to a state or local government agency, no taxes are due.

### **Substitute Bill Compared to Original Bill:**

The original bill allows all nonprofit organizations to loan or rent their property for up to 15 days without losing a property tax exemption. Under the substitute bill, only public assembly hall or meeting place; nonprofit nonsectarian character-building, benevolent, protective, and rehabilitative social service organizations; and veterans organizations are allowed more days of non-exempt use. The original bill allows broader categories of non-exempt use for all nonprofit organizations. Under the original bill, if property is used in a manner inconsistent with these requirements, the property loses its exempt status for the calendar month, rather than the entire year. The original bill eliminates the size limitation for the assembly hall and meeting place exemptions, and eliminates the requirement that the Department of Revenue narrowly construe the public assembly hall and meeting place exemption. The original bill reduced back taxes that are due when nonprofit exempt property is no longer used for the purposes for which the exemption is granted.

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**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** This bill is the result of working with several organizations that expressed problems with administration of their property tax exemptions. In small communities, nonprofit organizations often provide the only available public meeting space. If they rent out the property, the exemption is lost. These organizations are mainly staffed with volunteers. The volunteers often don't know the risk of losing the exemption until the Department of Revenue audits the organization. The existing penalties for occasional non-exempt use of these properties are too severe.

**Testimony Against:** None.

**Persons Testifying:** Representative Morris, prime sponsor.

**Persons Signed In To Testify But Not Testifying:** None.